

**REPORT OF THE AUDIT OF THE  
KNOTT COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE KNOTT COUNTY SHERIFF**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Knott County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

In the prior year there were two audits, one for former Sheriff Ray Bolen covering the period January 1, 2009 through June 30, 2009 and one for current Sheriff Dale Richardson covering the period July 2, 2009 through December 31, 2009. We combined amounts from both prior periods to arrive at yearly totals for comparison to current year amounts. Excess fees decreased by \$101,383 from the prior year, resulting in excess fees of \$165,360 as of December 31, 2010. Revenues decreased by \$112,244 from the prior year and expenditures decreased by \$10,861.

#### **Deposits:**

The Sheriff's deposits were fully insured by FDIC Insurance during the year.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Randy Thompson, Knott County Judge/Executive  
The Honorable Dale Richardson, Knott County Sheriff  
Members of the Knott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Knott County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 24, 2011 on our consideration of the Knott County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Randy Thompson, Knott County Judge/Executive  
The Honorable Dale Richardson, Knott County Sheriff  
Members of the Knott County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Knott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 24, 2011



KNOTT COUNTY  
DALE RICHARDSON, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Federal Grants:

Lake Patrol	\$	20,046	
High Intensity Drug Trafficking Area Grant (HIDTA)		58,081	\$ 78,127

State Grants:

Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		16,463	
Highway Patrol		3,850	20,313

State Fees For Services:

Finance and Administration Cabinet		60,999	
House Bill 452		5,783	
Transporting Patients		814	67,596

Circuit Court Clerk:

Kentucky River Community Care - Jail Diversion		4,600	
Court Ordered Payments		570	5,170

Fiscal Court

49,623

County Clerk - Delinquent Taxes

14,819

Commission On Taxes Collected

347,920

Fees Collected For Services:

Auto Inspections		3,966	
Accident and Police Reports		529	
Serving Papers		23,910	
Carrying Concealed Deadly Weapon Permits		3,700	
Telecommunication Franchise Commissions		3,776	35,881

Other:

School Resource Officer		20,000	
Sheriff's 10% Add-On Fees		47,667	
Interest Earned On Tax Collections		1,290	
Miscellaneous		2,584	71,541

Interest Earned

670

Total Revenues

691,660

The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY  
 DALE RICHARDSON, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$ 159,768
Appalachian HIDTA - Grant salaries	51,645
Justice Center - Court Security Payroll	64,784

Employee Benefits-

Employer's Share Social Security	24,924
Employer's Share Retirement	26,483
Employer's Share Hazardous Duty Retirement	49,287

Contracted Services-

Advertising	644
Vehicle Maintenance and Repairs	10,492
Payroll Services	2,600

Materials and Supplies-

Office Materials and Supplies	12,577
Uniforms	12,871

Auto Expense-

Gasoline	863
Maintenance and Repairs	9,844

Other Charges-

Conventions and Travel	567
Dues	779
Radio Supplies	36
Telephone	6,574
Postage	4,179
Training Expense	874
Copier Rental	1,861
Miscellaneous	10,214

Total Expenditures	\$ 451,866
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The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY  
DALE RICHARDSON, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2010  
(Continued)

Net Revenues	\$ 239,794
Less: Statutory Maximum	<u>72,622</u>
Excess Fees	167,172
Less: Training Incentive Benefit	<u>1,812</u>
Excess Fees Due County for 2010	165,360
Payment to Fiscal Court - April 11, 2011	<u>165,360</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent for the first six months and 33.25 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Benefits fully vest on reaching five years of service for hazardous employees. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 3. Deposits

The Knott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Knott County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance.

Note 4. Federal Grants

A. Lake Patrol

The Sheriff's office contracted with the United States Army Corps of Engineers to provide patrols for Carr Fork Lake throughout the year. The amount received under the contract was \$20,246.

B. HIDTA

The Sheriff's office received High Intensity Drug Trafficking Area (HIDTA) funds of \$58,081 during the year. These funds are used for the investigation and eradication of illegal drugs throughout the county.

Note 5. State Grants

A. KLEFPF

The Sheriff's office was awarded a Kentucky Law Enforcement Foundation Program Fund (KLEFPF) Grant from the Commonwealth of Kentucky Department of Criminal Justice Training. The Sheriff's office received \$16,463 in KLEFPF funds during the year.

B. Highway Patrol

The Sheriff's office was awarded a Kentucky Office of Highway Safety Grant from the Commonwealth of Kentucky Transportation Cabinet. Grant funds were used to provide additional road patrols. The Sheriff's office received \$3,850 in grant funds during the year.

KNOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 6. Forfeiture Funds

A. State Forfeiture Account

The Knott County Sheriff maintains a forfeiture account consisting of proceeds from the confiscation, surrender, or sale of real and personal property involved in state drug related convictions. These funds are to be used for the sheriff's office and are not included in the calculation of excess fees. This account had a beginning balance of \$523 at January 1, 2010. Receipts of \$11,568 were deposited and expenditures of \$3,323 were paid from the account during the year. The balance at December 31, 2010 was \$8,768.

B. Federal Forfeiture Account

The Knott County Sheriff maintains a federal forfeiture account consisting of proceeds from the confiscation, surrender, or sale of real and personal property involved in federal drug related convictions. These funds are to be used for the sheriff's office and are not included in the calculation of excess fees. This account had no beginning balance at January 1, 2010. Receipts of \$22,594 were deposited during the year and no expenditures were made from the account. The balance at December 31, 2010 was \$22,594.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Thompson, Knott County Judge/Executive  
The Honorable Dale Richardson, Knott County Sheriff  
Members of the Knott County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Knott County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated June 24, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knott County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Knott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 24, 2011

